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Economic growth expected to slow in '07

By MITCH DEACON Staff Writer

ONTARIO — While economic growth in the Inland Empire is forecast to rise at a slower pace in 2007, local analysts expect the Victor Valley to outperform the rest of the region in San Bernardino and Riverside counties.

Torrential construction activity in the residential market in 2004 and 2005 fueled stronger rates of growth in the Inland Empire than in the coastal counties.

But the housing market has slowed considerably, and as it continues to cool off in 2007, the region is predicted to fall behind the rest of Southern California.

"During the period when the housing market was booming, the Inland Empire saw a tremendous amount of building," said Lisa Grobar, professor of economics at California State University, Long Beach.

"With higher interest rates and a cooling housing market, the area is starting to grow a little more slowly because the housing sector is becoming a drag on the economy," she said.

The growth rate of the U.S. economy is expected to decline from 3.3 percent last year to 2.4 percent over the next 12 months, Grobar said.

The latest revisions of economic data for 2006 show a higher rate of employment growth than originally reported for Riverside and San Bernardino counties, where the employment growth rate was revised upward from 2.5 to 4 percent, Grobar said during a presentation at the Regional Economic Forecast for Southern California in Ontario.

"Four percent indicates tremendous employment growth by any standard, but it marks a deceleration from the previous year, when it grew by 5 percent," she said.

Grobar said she anticipates the rate of employment growth in the Inland Empire to fall to between 3 and 3.5 percent in 2007 and 2008.

Market watchers in the Victor Valley point to indicators showing a more promising outlook for the local economy.

"There has been a slowdown in the residential housing market, but that's because the market had been experiencing unprecedented growth," said Donald Brown, president of Lee & Associates' Victorville office.

"We are still seeing increases in permit applications and permit issuance for residential construction in the Victor Valley, but not at the level we have seen over the past few years, which indicates a normalization of the market as supply begins to equal demand," he said.

Employment growth in the Victor Valley is expected from industrial development of warehousing and distribution facilities, as well as the expansion of hospitals and ancillary medical services, strengthening the job base of the local economy.

"Approximately 60,000 people in the Victor Valley commute to jobs in the San Bernardino basin, Riverside and Orange County, which means that about 30 percent of the local work force is actually employed outside of the High Desert," Brown said.

“Many of these people moved here to purchase a home, because this area leads Southern California in terms of home affordability,” he said. “Now we are creating more employment in this area where people can live and work in the Victor Valley and still afford to buy a home.”

Mark Pisano, executive director of the Southern California Association of Governments, estimates that only 17 percent of households in Southern California can afford to buy or rent a home.
Price stability is an important factor in future growth prospects. Grobar predicts inflation to moderate this year as the slowing economy puts downward pressure on prices.

“The Federal Reserve is in a position to keep the fed funds rate at close to its current level of a little over 5 percent for an extended period,” she said.
“The fed would like to see the economy growing close to its long-term trend at about 3 percent and inflation in the 1 to 2 percent range, and if we achieve that there should not be any reason for the fed to take action in terms of interest rates,” Grober said.